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# Propane Pricing 101 - A Consumer's Guide

Maine Governor's Energy Office

Lisa J. Smith

*Maine Governor's Energy Office*, [Lisa.J.Smith@maine.gov](mailto:Lisa.J.Smith@maine.gov)

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## MAINE GOVERNOR'S ENERGY OFFICE

### PROPANE PRICING 101- A CONSUMER'S GUIDE

How are propane prices determined in Maine? This question is one of the most common inquiries heard in the Governor's Energy Office. The short answer – *"it's complicated"*. Several factors influence the final price Mainers pay for propane fuel. Hopefully, this fact sheet will assist you to be a savvy consumer, and enable you to obtain the price and service that best meets your needs.

**Question:** Are propane prices regulated?

**Answer:** No. Propane, like heating oil, is what the industry calls a 'delivered fuel' (in contrast to electricity and natural gas, which are delivered via wires, poles, and pipelines owned by the company transporting the energy). Electricity and natural gas service territories are, generally speaking, exclusive<sup>1</sup>, so their prices are regulated by the Public Utilities Commission. The prices of delivered fuels in Maine, as in all other states, are not regulated. Many companies can deliver to the same household, creating competition, so market forces (e.g., propane supply, demand, existence of other suppliers, volume used, and location) determine the price.



**Question:** Isn't propane priced the same as heating oil?

**Answer:** No, it isn't. There are a few circumstances with propane that don't exist with heating oil, circumstances that affect the price one pays. These are listed below, in no particular order.

- 1) **Propane is a gas under pressure.** Periodic inspections of tanks, piping, and connections are therefore necessary, adding to the cost of using this fuel. Propane also must be stored in pressurized tanks, which is an additional expense. Heating oil, in contrast, does not have to be stored in pressurized tanks.
- 2) **Most Mainers do not own their own propane tank.** Pressurized propane tanks are expensive to purchase. So, most Mainers choose to have the propane retailer own the tank. The retailer must recoup the cost of the tank somehow, so it is factored into the price of the fuel.
- 3) **Propane pricing is based on volume.** Think of propane prices as you would think of any good that you purchase – it is generally more expensive to buy anything in a small volume. For example, the single serving size of milk in a convenience store is a

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<sup>1</sup> Electric transmission and distribution (t&d) utilities in Maine have exclusive service territories; natural gas local distribution companies (LDCs) are not awarded exclusive territories by law, but exclusive territories exist in most areas with natural gas delivery service.

much more expensive way to purchase milk, per ounce, than if you bought a gallon container at Sam's Club. The costs of packaging and delivering the product are very similar, regardless of the size of the container. The same goes for propane customers. If you only purchase 50 gallons a year, it costs much more for the dealer to provide you with fuel. The dealer has fixed costs of the tank and the delivery truck/driver, and these costs are the same if you purchase 50 or 5000 gallons. You will pay a lower price per gallon if you purchase more.

**Question:** Is it legal for my propane company to charge me an annual fee in addition to charging me for the propane I use?

**Answer:** Yes, it is. Propane dealers are free to charge extra fees, and many dealers do, especially for small volume users. Dealers often cannot recoup the price of the tank and delivery to your home, if you use propane only for cooking or for drying clothes.

**Question:** So how do I obtain propane at a fair price?

**Answer:** It depends on what your needs are. Are you looking for the lowest price possible? Are you looking for fuel delivery only, or do you want to deal with a full service retailer? Are you comfortable with a small Mom-and-Pop delivery service, or would you prefer purchasing from a larger operation that has on-site storage, in the event of bad weather or tight supplies? Once you've decided what service best meets your needs, consider the following options for obtaining the best price.

- **Shop around.** There is no correlation between location and price in Maine. Propane dealers operate under very different business models – some are one-or-two-man operations with a delivery truck, others are large publicly traded companies with obligations to investors. A few phone calls to your local dealers might reveal a wide range of prices.
- **Know how many gallons you use each year.** Propane dealers all operate under a 'tiered' pricing structure, which means that smaller volume customers pay more per gallon. An example of this tiered system is: under 100 gallons per year; 101-250; 251-500; 501-800; and over 800 gallons. Each tier has a different price per gallon, and each dealer has their own set of tiered prices. So, you need to know how much you use if you are calling around for the best price.
- **Ask about fees.** Some retailers charge additional fees, and some do not. Make sure you know what additional fees you would pay when comparing dealers. Fees some dealers charge are: 1) annual tank rental fees; 2) annual leak detection and safety inspection fees; and 3) tank removal fees (if you are switching to a new retailer).
- **Consider purchasing your own propane tank.** If you are able to purchase your own tank, you would be free to purchase fuel from the supplier of your choice, and

the cost of the tank would not added to the price you are quoted. (State law prohibits propane dealers from filling tanks owned by another company. Many states have similar laws). However, if you do decide to purchase from a new supplier, the new company will require a safety inspection to be performed, and they will charge you for that service. The dealer will not deliver to a tank that they have not inspected themselves, as it is a liability concern.

- **For small volume users, ask about once-a-year delivery in the off-season.** Propane dealers purchase much of their product months ahead of time. In order to get enough fuel delivered in the months of Dec-Jan-Feb, dealers have to accept some fuel deliveries in the summer. If you are a small customer, consider getting your fuel delivered once a year, in the summer months. The dealer might consider offering a better price – but you have to ask.
- **If you prefer a set price, ask for a pre-buy contract.** This option will allow you to lock in a price for the season.
- **Ask to be notified prior to any business operational changes.** Some dealers have been guilty of changing delivery schedules, assessing new fees, etc., without notifying their customers first. Request that you be notified of any changes ahead of time. That way, there will be no surprises when you get the bill, or discover that you are out of fuel, but the delivery truck won't be back in your area for another week.
- **Switch dealers if you are not satisfied.** Changing dealers is not as difficult as it seems. Propane companies switch out tanks all the time. Try to plan changes in the off-season. Dealers are often very busy delivering fuel during cold weather, and may not have time to pick up an old tank. Also, if possible, try to use up as much of the propane in your tank as you can before changing dealers, to minimize the chance of spills or leaks. Although it is not state law, propane dealers generally reimburse the homeowner for any propane remaining in the tank when it is switched out, at the prevailing price.

For more information:

Propane Gas Association of New England

<http://www.pgane.org/homeowners/>

Pricing is based on volume

<https://www.youtube.com/watch?v=l3FyPUIAI3w&feature=youtu.be>